

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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October 15th, 2008

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## **SUBJECT: AUDIT OF RISK MANAGEMENT'S CLAIMS PROCESSING OVER LIABILITY AND WORKERS' COMPENSATION CLAIMS**

### **Introductory Remarks**

In compliance with Article V, Section 6 of the San Bernardino County Charter and the Memorandum of Understanding (MOU), dated August 23, 1991, we have completed a compliance audit of Risk Management's claims processing over Liability and Worker's Compensation claims. Our audit was conducted in accordance with the standards developed by the Institute of Internal Auditors.

### **Scope of Audit**

The purpose of this audit was to determine if control activities used by Risk Management to process Liability and Workers' Compensation claims payments by electronic data interchange with the County's Financial Accounting System (FAS) were adequate to allow the Auditor/Controller-Recorder's Controller Division to process those claims payments without supporting documentation. Our audit was limited to the system of internal controls and procedures related to Liability and Workers' Compensation claims payments for the period July 1, 2006 through June 30, 2007. We tested 120 Liability and 119 Workers' Compensation claims for compliance with department policies, procedures, and the Memorandum of Understanding dated August 23, 1991.

### **Results of Audit**

In our opinion, the internal controls over the Liability and Workers' Compensation claims payments are adequate, except for the conditions we noted that requires management's attention. However, our study and evaluation of the system of internal controls would not necessarily disclose all material weaknesses in the system. The conditions noted that requires management's attention are discussed below.

## **STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS**

The following is the prior year finding that still occurred in the audit period of 7/1/06 to 6/30/07.

### **Finding 1: Reconciliation controls could be improved**

Reconciliations of FAS with Risk Management's Automated Claims System are a fundamental element of internal control that helps to detect errors, omissions, and fraudulent activity. Current standard practice of Risk Management – Reconciling FAS claim payments with ACS claim payments requires a monthly reconciliation between FAS and ACS along with minimum documentation requirements. During our testing of the reconciliations, we noted reconciliations were not being prepared and reviewed within 2 ½ months. Also, one reconciliation did not include a JV accrual so the FAS balance reported on the reconciliation did not tie out to FAS. In addition, the staff only accounted for the differences between the activity of ACS and FAS for the specific month. The staff did not account for the beginning balances that may show differences that may have existed from the previous month's reconciliation. These internal control weaknesses can result in errors, omissions, and fraudulent activity not being discovered in a timely manner, or not being discovered at all.

### **Recommendation:**

Follow the current standard practice of performing and reviewing reconciliations within 2 ½ months. Possibly change the standard practice to extend the Supervisor's review to 3 ½ months to accommodate the Supervisor's time constraints. We also recommend performing the reconciliations on the fund's with the most activity first, because of the higher risk of errors that could occur within these funds. In addition, ensure staff is reconciling each month's accurate running balances for ACS and FAS. We have included a sample of what the reconciliation should look like to assist staff with making this change.

### **Management's Response:**

We understand the importance of preparing and reviewing each month's reconciliation in a timely manner. During fiscal year 2007-08 the fiscal section experienced an increased workload as it worked to convert to a new automated claims management system, iVOS (Valley Oak Systems). This was a major transition for the department as Risk Management's prior claims system, GenSource, had been used since 1985. Risk Management went online with iVOS in June 2008. With the new claims system the fiscal section will work to generate reports that will facilitate the reconciliation process. For example, we will work to generate a report from the claims system that will show the beginning and ending balances for each pay category within a fund for the month. We did

not have a report for the monthly reconciliations showing beginning and ending balances with GenSource. We also hope to generate the monthly expenditures report from iVOS shortly after month-end. With GenSource we had to wait for a month to pass before we could generate the report. These improvements to our monthly reporting will assist us in implementing the revised monthly reconciliation format the auditors have recommended to us. With these changes Risk Management will move closer to providing monthly reconciliations that are complete, accurate and timely.

### **Auditor's Response**

Management's responses addresses actions taken to correct the deficiencies noted in the audit finding.

## **CURRENT YEAR'S FINDINGS AND RECOMMENDATIONS**

### **Finding 2: Physical access to the main computer system is not secure.**

Physical security over the main computer system limits the likelihood of a disruption of operations or loss of valuable information caused by theft or vandalism. Presently, the physical access to the main computer system is not secure. The system is located in an unlocked room where anyone within the department can enter at will. Per discussion with Bob Barth, Applications Specialist, if theft or vandalism of the system did occur, it could take up to several days-two weeks to get operations running again. If someone was able to access the information within the system, confidential claimant information could be obtained. With the privacy laws enacted such as the Health Insurance Portability and Accountability Act (HIPAA), legal liability issues could result.

### **Recommendation:**

The physical security over the main computer system should be improved. The room should be locked. If that is not possible, maybe consider moving the system to a more secure location.

### **Management's Response:**

The room is now being locked. The only available keys have been distributed to IT personnel and management.

### **Auditor's Response**

Management's response addresses actions subsequently taken to correct the deficiencies noted in the audit finding.

**Finding 3: Controls over claims processing could be improved.**

The following criteria is used when processing claims:

1. A release form is obtained from the claimant to release the County from any future liability on the same claim.
2. Per the Current Standard Practice of Risk Management for claims processing, the Risk Management staff should perform the following:
  - a) Review invoice for full or partial payment. Claimant # must be noted on the document.
  - b) Match original copy of invoice to the correct claim file number.
  - c) Stamp the invoice and input the following information after the FAS download is executed: Trans # or doc #, Batch #, Date sent, Verified by, and Claim #.

During the test work, auditor observed some control weaknesses over claims processing.

1. A release form that should have been in the closed claim file was not obtained.
2. A duplicate payment was made on the same claim.
3. The required stamp on the invoice which ensures the FAS download of payment was executed was missing for one claim.

The County may incur additional liability after a claim has been settled if a release form is not obtained by the claimant. In addition, control weaknesses over claims processing may cause errors, omissions, or even fraudulent activity to occur.

**Recommendation:**

Ensure staff is obtaining a release form for every claim file whenever necessary. The Supervisor should be reviewing the claim file closure checklist to ensure staff has obtained the necessary release for files that require it and make note to follow up if it has not yet been received. Also, staff should be following the Standard Practice for Claims Processing more diligently to reduce the chances of duplicate payments being made.

**Management's Response:**

The proper preparation and review of the file closure checklist was a point of emphasis at the last Liability staff meeting. This will also be an item for file audit review. We will especially stress the importance of obtaining and filing release documents. In addition, we are planning to have a consultant perform a Claims

Management Study. The purpose of the study is to evaluate claims management practices relative to industry best practices specifically focusing on staff workloads and task assignments, classification specifications and compensation. The consultant will also help us develop appropriate performance measures and benchmarks to assist us in objectively evaluating adjuster performance which we hope will improve our claims processing procedures.

#### **Auditor's Response**

Management's response addresses actions subsequently taken to correct the deficiencies noted in the audit finding.

#### **Finding 4: A claim form was not obtained within 30 days of notice of injury.**

Per Labor Code 138.4, a claims administrator (i.e. Risk Management), who obtains knowledge that the employer has not provided a claim form to the employee is required to provide the form and notice to the employee within three working days of its knowledge that the form was not provided. If the claims administrator cannot determine if the employer has provided a claim form, the claims administrator must provide the form within 30 days. Also, a completed claim form is the prerequisite to the receipt of penalty for late payment of compensation and the right to request a formal medical examination by the claimant. Therefore, these procedures should not be performed until after a completed claim form is in the file. During the audit, it was noted that a claim form was not obtained within 30 days of notice of injury. In addition, the claim form was obtained, however it wasn't until after the file had been closed and payments had already been made. Paying worker's compensation benefits to claimants without a completed claim form within 30 days of notice of injury is not in compliance with labor code. The potential for any legal liability to occur against the employer or the claims administrator could result negatively if all the proper procedures are not followed for each claim.

#### **Recommendation:**

Ensure the adjusters are verifying with the employer that a claim form has been sent to the claimant immediately after notice of injury. If not, the adjusters should be sending out the claim form themselves. Possibly set up a checklist within the file showing these steps were performed.

#### **Management's Response:**

We concur with proposed recommendations and will reinforce the importance with the staff, of having discussions with their departments and/or sending out the claim form themselves.

### **Auditor's Response**

Management's responses addresses actions taken to correct the deficiencies noted in the audit finding.

### **Finding 5: A death audit report should be obtained to verify cycle payments are not being paid out to deceased recipients.**

A death audit report is a good control over preventing overpayment of resources. Presently, the Department does not obtain a death audit report to verify cycle payments are not being paid out to deceased recipients. Making payments to deceased recipients is exhausting resources that can be used elsewhere. In addition, once notice of death is obtained the period of cycle payments made between actual death and notice may not be refunded. Therefore, a loss of valuable resources which could potentially add up to a substantial dollar amount could occur.

### **Recommendation:**

Obtaining a death audit report periodically can reduce the chances of making payments to deceased recipients. We recommend that the Department have a death audit report ran on recipients of cycle payments on a regular basis for example monthly or quarterly. We suggest using a company like the Berwyn Group ([www.Berwyngroup.com](http://www.Berwyngroup.com)) to perform the death audit. They specialize in mortality verification and their aim is to prevent payments being sent to unlawful or unintended beneficiaries.

### **Management's Response:**

We currently use <http://ssdi.genealogy.rootsweb.com/cgi-bin/ssdi.cgi> to check the status of our Life Pension and ongoing Permanent Disability claims. This is a free website. The County has a policy for all County Departments to notify Risk Management of all Deaths.

### **Auditor's Response:**

We concur that the use of this website to check the death status for recipients of Life Pension and ongoing Permanent Disability claims is fine. However, we recommend that all recipients of these payments are checked on a consistent basis using this website to confirm they are not deceased and receiving payments they should not be.

**Acknowledgements**

We wish to thank the management and staff of Risk Management for their assistance and cooperation throughout the audit.

Respectfully submitted,

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Auditor/Controller-Recorder

By: \_\_\_\_\_  
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